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2011 a 'solid year' for Asian hedge funds, according to BNY Mellon

While hedge funds have had a tough time raising funds in 2011, the industry in Asia actually experienced a "solid year", according to BNY Mellon.

Andrew Gordon, the head of BNY Mellons Alternative Investment Services in Asia, says that redemptions were not as bad as people feared while the average size of a fund launch in the region during the year was the same as Europe, for the first time, at around US\$40 million.

Mid-sized funds did very well in the region, although he admits the figures were flattered by the success of a small number of new, larger hedge funds in the region.

"Overall the number of funds in the medium to large category is definitely growing," he said in a statement.

Gordon noted that across all Asian hedge funds, most fund launches raised less than initial targets or were delayed and there was the continuation of the closure of small funds. He believes, however, that positive signs re-

main of vibrancy of the Asian hedge fund industry.

"Redemptions were not as bad as people feared and some allocations to Asian managers which had been delayed started to come through towards the end of the year. There is certainly less leverage in the system today compared to 2008, so less of a need for investors to realise cash."

Gordon believes that in 2012, the fund raising environment will continue to be difficult even though indications are that allocations to emerging markets are holding up.

In Asia, the threat of the continued withdrawal of big European banks will create opportunities but if these assets start to be sold in falling markets there could be a knock-on effect in Asia that would pose a danger to growth in the Asian hedge fund industry.

Gordon said BNY Mellon has been watching the continued growth and success, particularly amongst mid-sized Asian hedge funds, throughout 2011 with interest.

"The defining characteristic of these funds has been an intense focus on good governance, especially around counterparty risk," he said. "Fears around a global financial crisis have been so deep-seated that hedge fund managers have had to find a way to satisfy the risk management requirements of investors originally raised after the 2008 financial crisis, leading to a 'new norm' in the institutionalisation of the hedge fund industry in Asia."

"Prime custody has become the hot product of 2011, especially since the second quarter of this year when concerns around the global economy resurfaced. Specifically, Asian hedge funds have bought into using multi primes and segregated custody accounts for unencumbered assets."

Prime custody, said Gordon, kept his team busy during 2011, and he expects that to continue well into 2012. Funds making the decision to utilise this type of protection are viewed as having institutional quality infrastructure.

"More sophisticated prime custody services are also helping hedge funds improve execution and collateral management, reducing financing costs and enabling efficient reporting in one place. There are also benefits to be had in utilising these assets in securities lending programmes."

Going into 2012, he said, the economic uncertainty is not the only reason hedge funds are spending more time and money on good governance and to protect against counterparty risk. "New regulations in many jurisdictions around the world and the bankruptcy of MF Global are continuing to sharpen the focus on the non-investment aspects of how a fund is managed. Industry participants are looking to see if they can do things better and this is something that will ultimately drive the hedge fund industry and the markets."

Published online January 16, 2012

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